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China - Peoples Republic of

Oilseeds and Products Update

October Lockup Report

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Report Highlights:

Post's October estimate for MY12/13 domestic oilseed production remains unchanged from the previous report. China's dynamic animal production and rising vegetable oil consumption are expected to drive soybean imports given domestic oilseed's stagnant production. A change in rapeseed import policy could encourage additional rapeseed imports. Cottonseed and peanut production forecasts remain soft, with future prospects dimmed by low profits. Palm oil imports grew 2 percent but pending labeling changes may dampen further import expansion.

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Executive Summary:

Post's October estimate for MY12/13 domestic oilseed production remains unchanged from the previous report. China's dynamic animal production and rising vegetable oil consumption are expected to drive soybean imports given domestic oilseed's stagnant production. A change in rapeseed import policy could encourage additional rapeseed imports. Cottonseed and peanut production forecasts remain soft, with future prospects dimmed by low profits. Palm oil imports grew 2 percent but pending labeling changes may dampen further import expansion.

Soybeans

--Production

Post's estimate for MY12/13 domestic soybean production remains unchanged at 12.5 MMT reflecting a five year low production level. Other sources place the level even lower. China National Grain Oilseed Information Center (CNGOIC) reduced its MY12/13 domestic soybean production to 12.8 MMT, from its September estimate of 13 MMT, based on lower harvested area of 6.75 MHa, down slightly from its September estimate of 7.15 MHa. This shrinkage is primarily attributable to crop substitution from soybeans to corn in the Northeast provinces, particularly Heilongjiang, due to higher expected profits for corn. Another source unofficially forecast the production at 9.8MMT based on 5,788,000Ha planted area.

Normal weather conditions during the growing season produced yield gains which offset the area decline, but remain insufficient to prevent an overall production decline. With harvest almost complete, marketing of the MY12/13 crop is proceeding smoothly. The farm gate price, hovering around \$698/MT, is close to industry's anticipated government purchase floor price but below farmer's expectation of about \$790/MT. At this price, soybean profits remain marginal which will dampen planting anticipation for next season, especially given that more profitable crops can be grown in soybean production areas.

--Soybean imports remain strong

According to Global Trade Atlas (GTA), MY11/12 China's soybean imports reached 59.2 MMT, up 13.2 percent over the previous year, accounting for 84 percent of total domestic soybean consumption. CNGOIC data shows soybean import volume is estimated at 5.2 MMT in November and 4.5 MMT in December, respectively. A consistent increase in consumer demand for meat products and growing animal production inventory will continue to support strong soybean imports as a protein base for animal feed. The coming holiday season will also boost vegetable oil and meat consumption supporting soybean imports and soybean meal use.

MY11/12 soybean oil imports stood at 1.5 MMT, up 14 percent over the previous year, in response to soybean imports and edible oil demand; MY11/12 soybean meal exports were 927,000 MT.

Rapeseed

Post's estimate for MY12/13 rapeseed production remains unchanged from last month's figure of 12.5 MMT.

China's current rapeseed import policy restricts entry ports to non-rapeseed production regions due to phyto sanitary concerns. However, in mid-October, AQSIQ indicated that this policy may be relaxed. Regulators stated that rapeseed imports may be allowed to enter rapeseed production regions in the future if the offloading and transport of rapeseed is properly supervised, certain deactivation measures are added during the crushing, and leftovers are incinerated. This policy change is expected to facilitate the resumption of rapeseed import volume to levels from before the import restriction.

Cottonseed

MY12/13 cottonseed production remains unchanged from September estimate at 11.3 MMT.

China Cotton Association (CCA) estimated MY12/13 cotton production at 6.95 MMT. Based on a nationwide survey conducted in September, CCA estimated a MY12/13 cotton production of 6.95 MMT, down 4.4 percent over the previous year, and 19,000 MT lower than CCA's August estimate. The slight adjustment is mainly due to reduced yield in Shandong and Hebei provinces as a result of excessive rainfall in the pre-harvest months. The CCA cotton production estimate generally supports Post's cottonseed production estimate.

CCA's survey shows cottonseed production is unlikely to increase next year. Planting intentions are likely to fall as the current cotton price is deemed too low to offset high risks, increased production costs and a long production cycle.

Peanuts

September's MY12/13 forecast for peanut production is 16 MMT. CNGOIC's September forecast for MY12/13 peanut production is 16.2 MMT, unchanged from its previous data, due to expected higher yields under favorable weather conditions.

Despite the bumper peanut harvest, farmers did not receive anticipated profits as peanut prices fell after the harvest started. Industry sources report that demand for peanuts, both home and abroad, remains weak, particularly for overseas orders.

Palm oil

MY11/12 palm oil import growth leveled at 2.3 percent with total imports of 5.84 MMT. As reported in September updates, China's AQSIQ regulation which will requiring "blended oil" to bear labels with

ingredient shares will alter the current practice of blending palm oil (relatively cheap) with other oils without a detailed ingredient share description. This change may discourage some palm oil imports.